



Testimony of John Robert Smith
Co-Chair, Transportation for America
and President & CEO, Reconnecting America
to the
U.S. House of Representatives
Committee on Transportation and Infrastructure
Subcommittee on Railroads, Pipelines, and Hazardous Materials
July 9, 2013

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Chairman Denham, Ranking Member Brown, and members of the Subcommittee, thank you for the opportunity to testify today. I am John Robert Smith, Co-Chair of Transportation for America, the country's broadest and most diverse transportation coalition. Our members hail from the fields of transportation, housing, environment, public health, real estate, safety, and social equity, representing more than 500 different organizations. I am also the President and CEO of Reconnecting America, a national nonprofit that integrates transportation and community development. Reconnecting America is the managing partner of the Center for Transit-Oriented Development, which conducts research and promotes best practices in development along transit lines.

I would like to thank the Subcommittee for holding this hearing on the role of innovative finance in intercity passenger rail. Functional, safe, and efficient transportation systems are one of the cornerstones upon which this country was built. Passenger rail was an integral part of that national network long before our interstate highway system and aviation industry came into being. Today, the future of America's economic growth, energy security, and the health of our citizens depend on our ability to affordably connect people with jobs, education, healthcare, and opportunity. A well-funded, well-maintained national passenger rail system is more important to that goal than ever. With the Passenger Rail Investment and Improvement Act of 2008 (PRIIA)

set to expire on September 30, 2013, now is the time for the members of this Subcommittee to work with your colleagues throughout the Congress and in the Administration to set policies in place to help passenger rail realize its potential as a modern, efficient transportation mode that strengthens our national economy and provides transportation choices for all Americans.

As Mayor of Meridian, Mississippi for sixteen years and as a member of the Amtrak Board of Directors from 1998-2003 (Chairman from 2002-2003), I have spent much of my career finding innovative ways to fund and support transportation improvements, including building the first multimodal transportation center in the South. Based on this experience, I would like to provide the Subcommittee with three core principles to keep in mind as you draft the next authorizing legislation for passenger rail: (1) a national passenger rail system has significant economic value; (2) maximizing the value of our passenger rail system requires increased, stable, and dedicated federal funding; and (3) station area development is a promising area for utilizing innovative financing mechanisms.

I. A National Passenger Rail System Has Significant Economic Value

Americans today are using intercity passenger rail in record numbers. Amtrak, the nation's intercity passenger rail provider, carried 31.2 million passengers last year, breaking all previous ridership records. This feat is unsurprising when one considers the effects of rising gas prices, multiplying airline fees, increasing congestion on roads and in air travel, and improved performance of Amtrak in many corridors. Rail provides an affordable, convenient alternative for many trips. What is more, in our increasingly interconnected economy, a region's ability to

compete relies in part on its ability to provide the transportation choices people need to be connected to the larger region and indeed, to the nation as a whole.

That is why mayors and other local elected officials are so deeply engaged on transportation issues. Even after I left office in Meridian, I have stayed in contact with local leaders around the country, who understand that in order to remain competitive their city has to offer connectivity and mobility not just for goods and materials, but for people as well. Passenger rail provides that connectivity. In some places, passenger rail means that workers can be connected to jobs, as is the case in the Northeast Corridor, along the West Coast, in the Midwest, and in several corridors in between. In others, rail service means that people can travel for recreation, supporting the tourism industry, which in some states is among the leading industries. In some of our northern and western states, rail service means that commerce and activity can continue even when highways are impassible due to heavy snows. In many communities, rail service means that seniors – a growing segment of the population - can afford to visit their families without having to brave crowded airports or congested highways. In smaller college towns, rail provides an essential connection for students seeking to enhance their education with the opportunities of a big city.

For example, the college town of Grinnell is located in a sparsely populated part of central Iowa. Grinnell is only 285 miles from Chicago, but is no longer served by passenger rail, which used to connect the two cities in only a few hours. According to Jim Reische, Vice President of Communications for Grinnell College, “Grinnell is having an increasingly hard time recruiting the world-class faculty, staff and students we need to sustain our reputation and support our

community, because of the impression that we're geographically isolated.” Reische believes that restoring the rail connection to Chicago is necessary for “attracting people who have competing educational or employment options in locations they largely perceive as more desirable, typically because of easier access to metropolitan areas and the associated assumptions about diversity, cultural life, etc.”

Increasingly, businesses are seeking to locate in places that can provide both a high quality of life for executives and employees as well as seamless connections to the surrounding region. Young college graduates are looking for places to settle where they can have transportation options other than driving. Rural residents are looking to remain in their hometowns while still having access to regional centers for health care or other special services. The mayors and local leaders with whom I have spoken agree that these are the factors that lead to economic success – residents who want to remain, businesses and young people who want to move in. They further agree that rail service is a key component of their ability to retain and attract residents.

As of today, thirteen mayors of cities along the Gulf Coast from New Orleans, LA to Jacksonville, FL have joined together to support passenger rail service along that corridor. Service along the Gulf Coast was suspended after Hurricane Katrina in 2005 and has not been restarted, despite the fact that this corridor is experiencing rapid growth. It is the fourth largest aerospace corridor in the country, an industry that needs rapid, efficient transportation for its products and people. These mayors – who represent cities large and small along the Coast – are seeking the restoration of passenger rail service in order to allow their region to continue its strong economic growth without choking on highway and airport congestion.

Research into the economic effects of passenger rail supports the Gulf Coast mayors' conclusion about the economic potential of restored rail service. For example, three years after the Downeaster service from Boston, MA to Portland, ME started, researchers found more than \$15 million in annual business sales in Maine and New Hampshire attributable to the rail service.¹ A study of the Empire Builder's impact on Montana found that direct spending in Montana by Amtrak and riders from out of state totaled between \$5.3 million and \$5.7 million annually, and that the benefits for Montana residents of using Amtrak intercity service (in terms of automobile costs avoided, lower accident probability, reduced highway maintenance, etc.) totaled at least \$7.6 million annually.²

While these examples focus on specific corridors, it is important to keep in mind that the value of our passenger rail system derives from the fact that it is a national system. Just as our interstate highway system includes shorter segments, such as Interstate 97 whose entire length is located within Anne Arundel County, Maryland, and longer ones, such as Interstate 90 that runs from Boston to Seattle, our national passenger rail system is an interconnected set of corridor-based and longer distance routes. As with any network, the more connections that are made, the larger and more valuable the network becomes. If any set of connections is eliminated, e.g., through reductions in service, the value of the entire network is diminished. Conversely, by expanding service to more communities, bringing the benefits of affordable, efficient travel choices and reduced need for automobile and roadway maintenance, the economic benefits of the entire network can be increased.

¹ "Economic Benefits of Amtrak Downeaster Service," Prepared for the Maine Department of Transportation by Economic Development Research Group, Inc. and KKO and Associates, February 2005.

² "Analysis of the Economic Benefits of the Amtrak Empire Builder to Montana: Report to the Montana Department of Transportation, Montana Department of Commerce, and Montana Department of Agriculture," R. L. Banks and Associates, Inc., July 2003.

The value of the network is also diminished, however, if the equipment and infrastructure are not in a state of good repair. Amtrak is currently facing a backlog of capital needs, including an estimated \$52 billion through 2030 to bring the Northeast Corridor into a state of good repair and keep it there. In part this situation stems from the age of the infrastructure – in some places, trains are running through Civil War-era tunnels! – but in large part this is a result of years of underinvestment at the federal level. To ensure that our national passenger rail system achieves its maximum economic potential, we must not only improve and expand service to additional communities, we must also make the investments needed to ensure that the system is brought into a state of good repair. These threshold conditions must be met before passenger rail can become a strong candidate for innovative financing strategies.

II. Stable, Dedicated Funding Is the Foundation for Innovative Finance

Achieving the conditions discussed above requires a stable, dedicated federal funding source for intercity passenger rail's capital and operational needs. Even if innovative financing strategies ultimately do become a larger piece of the funding pie, federal support will still be necessary, as it is for every other mode of transportation in this country.

Intercity passenger rail is part of a multimodal transportation network that also includes, among other things, roads, bridges, local and regional rail and buses, and aviation. Not one of these modes fully covers its costs from its own revenues. All of them rely on public support. Amtrak has made significant improvements to its operations - last year it covered 88% of its operating costs from ticket revenues and other non-federal revenue sources. Highway user fees currently

pay for only about half of the cost of building and maintaining our road network³. At the federal level, \$41 billion of general revenues has been transferred to the Highway Trust Fund since 2008 to keep highway funding level, with another \$12.6 billion authorized to be transferred in 2014. On the aviation side, federal funding supports airport infrastructure and certain operations necessary for commercial aviation to function, including air traffic control and aviation security. No other transportation mode in this country is expected to be self-sufficient, and no passenger rail system in the world is self-supporting. All receive some form of government support. As soon as we walk out onto the sidewalk in front of our home, or back out of our driveways onto the street, we are using publicly-supported infrastructure.

While passenger rail is similar to other modes in that it receives federal support as they do, it differs in a very important respect. While highways, public transit, and aviation all benefit from dedicated revenue sources deposited into Trust Funds for their use only, passenger rail in this country is funded on an annual basis from the government's general funds. As a result, rail must fight for its funding every single year. Oftentimes, there is a real threat of rail funding being slashed. The House Appropriations Committee recently proposed a FY14 Transportation-HUD bill that would cut Amtrak's funding by a third, a level that would significantly undermine the railroad's ability to continue national operations.

Although PRIIA authorized consistent and stable funding for Amtrak, that funding was not guaranteed, as most highway and transit funding is, and as a result was not provided by Congress at the authorized levels. This situation makes it extremely difficult for Amtrak to make longer-

³ Pew Charitable Trusts, "SubsidyScope: Analysis Finds Shifting Trends in Highway Funding: User Fees Make Up Decreasing Share", updated 25 November 2009, cited in "Do Roads Pay for Themselves? Setting the Record Straight on Transportation Funding", USPIRG Education Fund, January 2011.

term investment decisions and upgrade its current infrastructure and equipment to improve service. Imagine if your salary was up for debate at the beginning of every year. How could you ever purchase a new car to replace your old jalopy, given that payments would stretch out beyond the first year? How would you know if you could afford to fix your leaking roof next year before the hurricane season starts?

Until Amtrak is provided with stable and dedicated funding, this situation will inhibit the utilization of innovative finance strategies. Private investors in infrastructure projects make long-term commitments, not promises that can be renegotiated every year. These private companies understand the concept of “appropriations risk” – the risk that the federal portion of a project’s funding will not be forthcoming in a particular year – and the higher the risk, the higher the return the private investor will require. If the risk is sufficiently high, the private partner will walk away altogether. As long as rail investment remains a political football in Congress each year, it is doubtful that private sector partners will be interested in making a long-term commitment to rail.

Real-life examples demonstrate that for many public-private partnerships, the threshold requirement is committed public funding, more so than the existence of a private partner. An often cited example of a promising public-private partnership is the Capital Beltway 495 Express Lanes in Northern Virginia. This project has a total cost of \$2 billion funded through a mix of grant funding, financing, and private equity. Of this total, close to \$1.7 billion involved public sector contributions with the Commonwealth of Virginia contributing \$495 million in grant funds and the federal government providing almost \$1.2 billion in subsidized financing tools.

The private equity portion represented the smallest percentage. Without the significant public funds and publicly subsidized financing tools, it is questionable whether this project would have been constructed.

If the Subcommittee's goal is to encourage innovative financing strategies for intercity passenger rail, a necessary first step is to develop a stable, dedicated federal funding source that can provide the resources needed both to operate and maintain a national system. We hope members of this Subcommittee and others in Congress will work expeditiously to find dedicated revenues for passenger rail as well as other surface transportation investments. The most promising near-term opportunity for identifying these needed revenues is the comprehensive tax reform legislation currently being developed. Congress should not let this opportunity pass by without addressing the need for dedicated investment in the nation's multimodal transportation system.

III. Station-Area Development Is A Promising Area for Innovative Financing

As the Subcommittee considers the role of innovative financing in intercity passenger rail, it is important to understand the economic value that can be created by focusing development and increasing intermodal connections at rail stations. The concept of transit-oriented development (TOD), while most often seen around local or regional transit stops, can also be successful around intercity passenger rail stations. These stations can be focal points for economic development, creating value that can in turn be used to support passenger rail through various "value capture" mechanisms.

When public infrastructure funding can leverage significant private-sector investment in station areas, the result creates lasting value for communities, revitalized downtowns and neighborhood centers, and increased access to economic and social opportunity. These benefits can have a transformational effect in communities. I saw this firsthand in Meridian, MS. A public-private investment turned our historic train station into the South's first multimodal transportation center and proved to be a catalyst for transforming our main street, increasing public transportation ridership, and helping to generate millions of dollars in private economic development in the surrounding neighborhoods. Historic buildings were renovated; people came back downtown to both live and work, and also for entertainment. Our city center was revived, not only for residents but for those that lived in the surrounding 11-county region. The city's investment of \$1 million leveraged an additional \$5 million in federal, state, and private sector dollars, which resulted in \$135 million in economic development.

Meridian may have been among the first, but it is not the only community to have used its rail station as a focal point for economic development:

- Normal, Illinois built a multimodal transportation center as the anchor for redevelopment of an entire neighborhood, Uptown Normal. Using a combination of federal funding, local taxes, and tax-increment financing, the city built the center to replace an aging Amtrak station, along with other infrastructure needed to attract private development. As a result, Uptown Normal is now a vibrant neighborhood with residential, commercial, and entertainment opportunities.

- The City of Lincoln, Nebraska partnered with the University of Nebraska to turn the area around its rail station into a vibrant, mixed-use neighborhood, with a renovated rail station and new sports arena. The public bonds issued by the City and university will be repaid by sales tax revenue from activity at the sports arena and nearby hotels.
- In San Bernardino, California, the city partnered with the San Bernardino Associated Governments to restore the city's historic Santa Fe Depot. The city's goal is for the Depot to serve as a catalyst for future redevelopment in the area. The city is now planning a "Depot District" around the station, with shops, restaurants, and public gathering spaces.
- In Memphis, Tennessee, Central Station was the centerpiece of redevelopment in the neighborhood just south of the downtown business district. With connections both to Amtrak and to Memphis' trolley line, Central Station is now home to apartments on the upper floors and a banquet hall on the first floor. The station's redevelopment was also a catalyst for nearby commercial and residential development.

These examples demonstrate that there is significant economic development potential around rail stations when cities proactively plan and partner with the private sector. The federal government can help to encourage such activity by modifying its existing financing programs, including the Railroad Rehabilitation and Improvement Financing program (RRIF), to provide credit assistance for these activities. In exchange, the recipients of such assistance should ensure that a portion of the economic value created will be returned to help support capital projects or operating costs of the rail system.

The evidence to date from rail station area development as well as larger-scale transit station area development suggests that the amount of revenue such development typically returns to the transportation project is not enough to pay for all costs of constructing, maintaining, and operating that rail or transit line. In other words, capturing the value of station-area development to help defray the public infrastructure costs is an important tool in the tool box, but it does not replace the need for robust public investment. Innovative finance supplements – but does not supplant – federal funding.

Conclusion

To conclude, let me reiterate my appreciation for the Subcommittee's interest in this topic. Innovative financing can be an important component of the investment strategies for meeting our nation's passenger rail needs, as long as it rests upon the foundation of a national system with stable and dedicated federal funding. As I have said, mayors and local officials across the country with whom I have spoken support the development of dedicated funding for intercity passenger rail. I am working with them to provide a letter to the Subcommittee later this summer formally expressing their support. As the Subcommittee considers the upcoming passenger rail authorization, we stand ready to assist your efforts to ensure that our national passenger rail system can realize its full potential as a backbone of our multimodal transportation network. Again, thank you for inviting me to testify today.